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EU-27 DAIRY AND PRODUCTS ANNUAL

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Report Highlights:

The European Commission's (EC) intervention on the dairy market in 2009 helped to maintain overall EU-27 milk production at the previous year's level but created butter and non fat dry milk stocks. Farmers protested the drop in farm-gate milk prices across the EU-27 and created strong pressure on the EC to further expand market intervention and support the dairy industry in 2010. Farm-gate milk prices presently are rising. Market circumstances support a “wait and see” approach on whether the recovery continues before deciding if further intervention is needed. EU farmers sometimes are slow to react to market signals. Many national governments are announcing special aid to farmers. The EU dairy industry is the most diverse sector in size and productivity across the member states, representing a difficult policy to balance across the members. In 2010, as a result of higher domestic and export demand, EU-27 milk production will return to its upward trend.

Executive Summary:

Since mid-2008 Europe has experienced reduced domestic and international demand for its milk and dairy products, while costs of agricultural inputs increased. Despite lower prices, milk production in the EU-27 increased by 0.7 percent in 2008 due to the enlargement of the milk quota and a lag in reaction of farmers to unfavorable market conditions. The production increase is not expected to continue in 2009 due to the drop in raw milk prices and continued lower prices for dairy products on the world market. European dairy farmers have protested the drop of farm-gate milk prices, higher costs of inputs and what it terms is inefficient European Commission support. EU dairy herd inventories are expected to decline in 2009. The herd reduction is partly a result of increasing cow productivity and partly a reaction to unfavorable farm returns.

In January 2009, the European Commission started dairy market intervention based on support for private storage, export subsidies and building intervention stocks. These measures have had an impact on the structure of EU dairy product output, stimulating butter and non fat dry milk (NFDm) production. Cheese and whole dry milk (WDM) production drove the dairy market in 2008, but are expected to decline in 2009. Domestic consumption of all reported dairy products will decrease in 2009 due to reduced consumer purchasing power. Competition from substitute products and reduced exports will inhibit cheese production more than expected from last year's forecast. Higher butter production, combined with lower exports and consumption in 2009, is causing a butter oversupply and stocks are growing. Despite export refunds, weak demand from the world market is expected to reduce exports of butter and butter oil in 2009. Reduced world demand is also causing EU-27 production and exports of whole dry milk (WDM) in 2009 to decrease from the 2008 level. Despite lower milk supplies, NFDm production in 2009 is expected to grow as market intervention has driven up the profitability of NFDm/butter over cheese and WDM.

In 2010, FAS/EU analysts expect a gradual increase in domestic consumption, due to an improvement in the economic crisis and an increase of world market prices for dairy commodities. In 2010, milk production is forecast to return to its upward trend. Cheese and WDM production is forecast to grow in 2010, while NFDm and butter production are expected to decline, returning to 2007 levels. Cheese consumption in the EU is forecast to grow again in 2010, in line with growing output.

At the Agricultural Council meeting in Luxembourg on October 19, 2009, Commissioner Fischer-Boel proposed an extra Euro 280 million for the dairy sector. Growing milk supplies forecast in 2010 combined with the limited competitiveness of European dairy products on the world market and a slight increase of domestic consumption will still put strong pressure on EU authorities to further increase intervention stocks, subsidize consumption and continue the export refunds policy. In response to increasing world market prices for dairy products, effective October 23, 2009, the EU Dairy Management Committee (ManCom) reduced export refunds for NFDm to zero, halved refunds for WDM and butter and maintained unchanged the refunds for cheese. A further increase of world market prices may reduce EU's NFDm and butter stocks at the end of 2009, but it is difficult to predict whether the current upward trend will continue towards the end of the year.

DISCLAIMER

The PS&D numbers in this report are not official USDA numbers. The numbers are the result of a group effort by the individual FAS/EU offices to consolidate PS&D's from all 27 European Union.

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Commodities:

Dairy, Milk, Fluid

Production:

Country:	EU-27							
Commodity:	Dairy, Milk (1000 Head / 1000 MT)							
	2008			2009			2010	
	USDA Official	Post Old	Post New	USDA Official	Post Old	Post New	Post Old	Post New
Calendar Year Begin	01/2008			01/2009			01/2010	
Cows In Milk	23951	23951	24176	23900	23900	24248		24000
Cows Milk Deliv to Dairies	134346	134346	133848	134300	134500	133800		134000

Other Milk Production	4259	4259	4000	4260	4260	4015		4020
Total Milk Production	138605	138605	137848	138560	138760	137815		138020
Extra EU27 Imports	6	6	7	5	5	7		7
TOTAL SUPPLY	138611	138611	137855	138565	138765	137822		138027
Extra EU27 Exports	170	170	166	150	150	150		150
Fluid Use Dom. Consum.	33669	33669	33744	33680	33700	33800		33800
Factory Use Consum.	104772	104772	103945	104735	104915	103872		104077
Total Dom. Consumption	138441	138441	137689	138415	138615	137672		137877
TOTAL DISTRIBUTION	138611	138611	137855	138565	138765	137822		138027

Source: FAS EU Offices

2008

EU-27 milk production grew compared to 2007 due to high farm-gate prices and a strong export market in 2007 and in the first six months of 2008. Higher production was authorized by the third of three consecutive 0.5 percent increases in the milk production quota for the EU-15 and a 2 percent increase of quota for the entire EU-27. This led to overproduction of milk in the second half of 2008. Consumption of dairy products started to suffer from the economic crisis, as well as from weaker export markets. This resulted in price decreases for commodities and lower farm-gate prices for milk. Increased raw milk output stimulated higher factory use and fluid milk consumption. Cow inventories increased in 2008 due to increased milk quota but milk yields per cow were lower because of an increase in production costs, which led to a reduction of compound feed use. EU farmers were forced to cut expenses and the dairy industry began to restructure to larger enterprises. Raw milk production grew more slowly in the New Member States (NMS) than in the former EU-15 countries. Among EU-15 nations, milk production increased in France and Italy and decreased in the United Kingdom. Most of the increase in production occurred in the first quarter of 2008 in France. Protests of German farmers in the second quarter of 2008 had less effect on the overall trend of milk production in the EU-27 than originally predicted. In the NMS, milk production increased mainly in Poland due to an increase in the milk quota.

2009

Cow inventories are expected to decrease because of negative producer margins in combination with increasing/recovering cow productivity. Losses in dairy production are forcing farmers to slaughter dairy cows. EU-27 milk production in 2009 is expected to slightly decline. The decrease of milk production was limited by market intervention introduced by the European Commission in January 2009. Dairy processors started decreasing producer milk prices in mid

2008 due to lower export demand and reduced domestic consumption of dairy products and farm-gate prices bottomed out in June 2009. Since then prices are on the rise. This price recovery is expected to continue until the end of 2009. The low farm-gate prices for milk are expected to be partly offset by reduced feed costs due to a good grain crop in 2009. The epidemic of Bluetongue disease in the midst of Europe did lower milk cow productivity in 2009. Please note that the current situation on the dairy market is very different across the European Union member states. No two are alike.

French milk deliveries declined by six percent during the first half of 2009, from very high levels in the first half of 2008, when prices paid to producers were the highest in Europe. Cow slaughter increased by almost nine percent in the first half of 2009, in line with lower producer prices, and the French dairy herd is therefore expected to be lower in 2009. French milk production is expected to decline in 2009, in response to lower producer prices. The milk strike conducted by some French farmers in September 2009 further reduced domestic supplies of milk. The average price paid to milk producers has declined significantly in 2009. However, producer prices for milk in France have remained higher than those in Germany. During the first half of 2009, average producer prices declined by more than 19 percent to 255 Euro per 1,000 liters of milk. French household consumption of fluid milk increased by 1.4 percent in the first half of 2009, mainly due to reduced retail prices, as some dairy processors conducted promotional activities. In **Germany** milk deliveries from January through June 2009 were four percent higher than in 2008, however, this was in comparison with the reduced delivery because of the dairy strike in May 2008. In June 2009, the average raw milk price had fallen to 220 Euro per 1,000 liters. The market is currently stabilizing at the new low level, which indicates that prices have bottomed out and will start increasing. Industry reports they are seeing the first signs of market sales picking up again. Domestic consumption suffered from high prices in 2007/2008 which prompted the food industry to replace milk fat with vegetable oil in their recipes. The retail chains have taken advantage of this situation and reduced contract milk prices. Producer prices dropped to about half of what they were at the market peak. Despite lower profits, inventories of the German dairy herd have decreased only slightly. This is due to a lack of production alternatives and an unwillingness of producers to cut back, as those who recently expanded need cash flow to pay down debt. Also, producers are holding off due to the discussion about possible aid for those farmers who terminate production not to lose out on possible aids. In **Spain**, farmers get support for milk prices through a mechanism that considers the prices in other EU member states (MS) plus the cost of transport if they shipped milk to Spain. In **the Netherlands**, and to a lesser extent **Belgium**, dairy farmers are eager to increase their milk production. The new liberal EC policy is expected to stimulate Benelux dairy farmers to invest in production. From January to May 2009, Dutch and Belgian milk deliveries increased by 1.1 and 1.0 percent, respectively. During 2008/2009 quota year (April-March), the Netherlands exceeded the current quota, while Belgium did not reach the quota level. The **UK** dairy sector suffers from poor returns and tight margins. With farm numbers declining and the reduction in cattle numbers continuing to outstrip the trend increase in cow productivity, milk output continues to drop. Overall, UK production remains below quota and is expected to remain so for the foreseeable future. High, and rising, compound feed prices are putting increased pressure on farms operating close to or below margin. Despite falling raw milk prices, milk production in **Poland** is expected to remain unchanged as a very unfavorable situation in

other branches of agricultural production does not give farmers the opportunity to switch to other types of production.

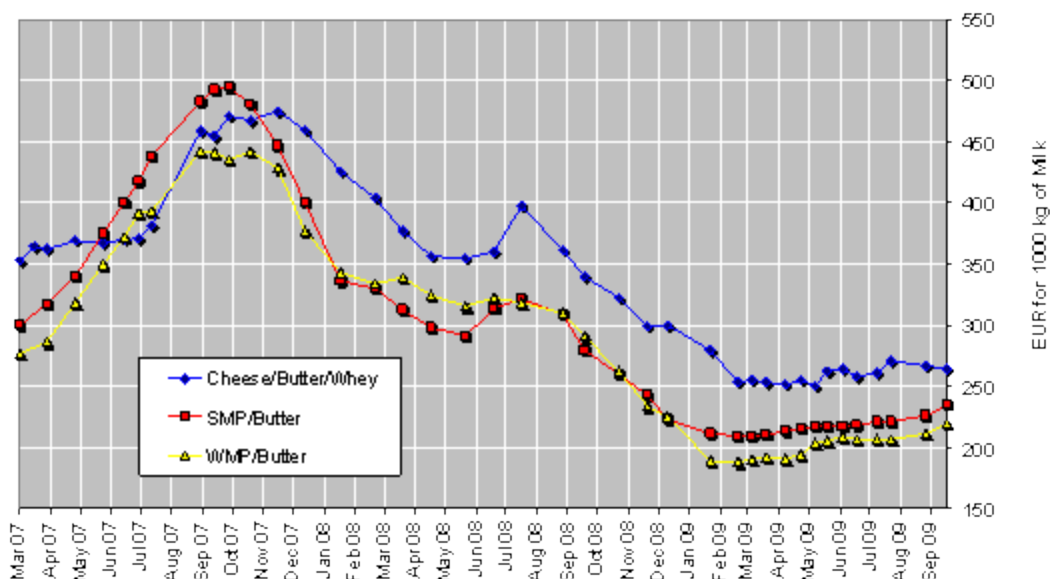
2010

Milk production will slightly increase in comparison to 2009 returning to a long-term positive trend of dairy production profitability and efficiency per cow. It is expected that after bottoming out in mid-2009, dairy market prices may start to recover in late 2009 and 2010. The long-term trend of growing production is a result of the soft landing engineered by the Commission. In some member states the application of article 68 of the Health Check agreement may keep some farmers in business, especially in less favored areas such as the mountains of Spain and France. The EU is expected to keep stocks high, or even add to stocks during 2010 as the supply-demand relationship is not expected to change over much. Fluid use of milk by industry is expected to remain stable. Despite an expected slight increase in production the enlarged dairy quota is not expected to be filled as it did in 2008/2009. Farmers are forced to produce because they have fixed costs. Factory use is expected to slightly increase in 2010 due to increased milk production.

Dairy Products

Since January 2009, when the EC re-opened its market intervention scheme, the dairy industry switched to products which are suitable for longer storage, like butter and NFDM. Butter and NFDM are becoming more profitable dairy commodities, while processing milk into cheese and WDM have been less desirable combination from a profitability point of view. However, despite its lowered profitability, hard cheese production still remains the most important dairy product in the European Union.

**EU Income of manufacturing of Cheese/Wheypowder, SMP/Butter
and WMP/Butter in EUR**
(changed time series of cheese prices)



Source: CIRCA, Market Situation Report, October, 2009

Commodities:

Dairy, Cheese

Production:

Country:	EU-27							
Commodity:	Dairy, Cheese (1000 MT)							
	2008			2009			2010	
	USDA Official	Post Old	Post New	USDA Official	Post Old	Post New	Post Old	Post New
Calendar Year Begin	01/2008			01/2009			01/2010	
Beginning Stocks	0	0	0	0	0	0		0
Production	6840	6840	6800	6850	6850	6730		6800
Extra EU27 Imports	93	93	83	85	85	85		85
TOTAL SUPPLY	6933	6933	6883	6935	6935	6815		6885
Extra EU27 Exports	490	490	490	480	480	470		475
Domestic Consumption	6443	6443	6393	6445	6445	6345		6410
Other Use, Losses	0	0	0	0	0	0		0
TOTAL Dom. Consumption	6443	6443	6393	6445	6445	6345		6410
Ending Stocks	0	0	0	0	0	0		0

TOTAL DISTRIBUTION	6933	6933	6883	6935	6935	6815		6885
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Source: FAS EU Offices

2008

Cheese production grew in response to an EU-wide increase of consumption. Higher cheese output was made possible by the increased output of raw milk. Germany, France, Italy, and the Netherlands were the major producers and exporters of cheese in the EU market. Towards the end of 2008 cheese exports started to decline causing lower production in 2009.

2009

Output of cheese in 2009 is expected to be temporarily limited because of a processing profitability gap compared to the NFDM and butter. The decrease in domestic consumption and lower export demand caused lower production. Producers redirected raw milk into products covered by the EC intervention schemes. Europe's dairy industry invested in cheese production capacity and processors believe that EU cheeses will remain competitive on the world market. EU-27 external cheese imports under quota are expected to remain stable despite lower domestic production. EU cheese exports are expected to decline by four percent in 2009 as a result of lower prices on the world market and strong competition. The economic crisis and the high Euro/US\$ exchange rate each limits the EU's export of cheese. The major export destinations are Russia, United States, and Japan. The biggest exporting countries are the Netherlands, Germany, France, and Italy. Exports of cheese in the fourth quarter of 2009 will depend on the relationship of profit margins for butter and NFDM processing in comparison to the margins of processing cheese. Competition from Oceania countries, especially New Zealand, has forced traders to sell at lower prices. Processors and exporters received support from the EC through non-tender export subsidies amounting to 220 Euros per MT, which were re-introduced on January 23, 2009. Lower exports and EU domestic demand had resulted in growing commercial stocks.

Cheese production in **France** is expected to increase slightly from 2008, as domestic consumption does not seem to be affected by the economic crisis, and branded products have benefitted from low retail prices. French cheese imports and exports were stable in the first half of 2009. **German** cheese production is increasing albeit at a slower pace than in previous years. Production and consumption of cheese is expected to continue its increase in 2009. However, the trend points to lower fat cheeses, so that the increased production of cheeses does not necessarily soak up additional milk fat. Imports and exports to non-EU countries slightly decreased in the first five month of 2009, while exports to other EU MS increased by 14 percent. Main non EU-27 export destinations are Russia, Croatia, and Japan. Since the end of 2007, cheese prices in **Benelux** countries have declined in part due to increased production in Germany, France and Poland. During the first five months of 2009, Benelux cheese production declined by over three percent. Larger processors reportedly prefer to produce NFDM and butter for intervention. Introduction by the European Commission of export restitutions for cheese, stabilized domestic cheese prices. The sector believes that cheese, in particular branded cheese, will be the main dairy product, which the EU can compete with on the world market. During 2010, Benelux cheese production and third country exports are expected to recover

slightly. In **Spain** cheese consumption has grown in 2008 and is expected to further increase by five percent in 2009. The increased consumption would be covered mostly by imported cheese from other MS. The most popular exported Spanish cheeses are made out of blended cow, sheep and goat milk. Their main EU markets are France, Portugal, Italy, and Germany, while the main external EU destinations are the United States (about 3,000 MT per year), Andorra, Mexico and Switzerland. The decline in milk supplies for processing in the **United Kingdom** has seen cheese production fall at the expense of butter in 2009. For cheese, high retail prices and tight economic conditions have encouraged consumers to scale back purchases. The Health Check Agreement ended the private storage program in **Italy**. In **Romania**, dairy cheese production is expected to remain at the current level, as a result of a drop in consumption and increased intra-EU imports. Imports are projected to continue in 2009 and 2010. In **Bulgaria**, during the first five months of 2009, production declined by 5 percent. Data shows a gradual easing in the negative growth, however, it is expected that resumption will not be likely before 2010. In the first seven months of 2009, cheese production in **Poland** increased by 10 percent accompanied by 17 percent growth of whey output as a by-product. There is a long-term trend in Polish dairy industry of greater use of milk fat for production of cheese at the expense of reduced butter output.

2010

Production is forecast to recover to 2008 levels due to expected higher demand resulting from global economic recovery. Margins for cheese production will recover in 2010 and it might be a good indicator of better conditions for the dairy industry. Domestic consumption of cheese may be still affected by the persisting financial crisis in Europe. Cheese imports are forecast to remain at a low level due to growing domestic supplies. Exports are forecast to remain at the 2009 level, however, they will depend on the Euro exchange rate.

Commodities:

Dairy, Butter

Production:

Country:	EU-27							
Commodity:	Dairy, Butter (1000 MT)							
	2008			2009			2010	
	USDA official	Post Old	Post New	USDA Official	Post Old	Post New	Post Old	Post New
Calendar Year Begin	01/2008			01/2009			01/2010	
Beginning Stocks	46	46	46	53	53	53		130
Production	2072	2072	2040	2110	2110	2090		2060
Extra EU27 Imports	65	65	66	80	80	65		65
TOTAL SUPPLY	2183	2183	2152	2243	2243	2208		2255

Extra EU27 Exports	151	151	153	150	150	140		175
Domestic Consumption	1979	1979	1946	2013	2013	1938		1950
Other Use, Losses	0	0	0	0	0	0		0
TOTAL Dom. Consumption	1979	1979	1946	2013	2013	1938		1950
Ending Stocks	53	53	53	80	80	130		130
TOTAL DISTRIBUTION	2183	2183	2152	2243	2243	2208		2255

Source: FAS EU Offices

2008

Final butter output was slightly lower than estimated in the previous reports. Final data for 2008 exports ended below estimates. Lower output resulted in decrease of butter consumption. EU butter ending stocks in 2008 were up to 53,000 MT and consisted only of butter under the Private Storage Scheme (PSA).

2009

Despite decreasing milk supplies in 2009, EU butter production is expected to increase two percent - stimulated by the EC market intervention. The increase is expected to occur mostly in the second half of the year as production in the first six months of 2009 was almost the same as in 2008. Due to the oversupply on the EU market, butter imports are expected to remain at a low level. Butter imports from New Zealand under the NZ specific butter TRQ decreased almost 60 percent in the first six months of 2008. Imports from the United States were almost discontinued over the same period. EU butter exports are expected to decline in 2009 due to lower world market demand and uncompetitive prices for EU butter caused by the strong Euro. EU domestic butter consumption is expected to remain almost unchanged.

In March 2009, the intervention scheme for butter was opened, and was prolonged after August 31. However, the PSA started in January 2009 and by October 22, 2009, PSA butter stocks equaled 72,742 MT, while the butter intervention stocks were 76,647 MT.

In **Germany**, butter production is expected to be one percent higher than in 2008. Industry and household consumption declined in response to higher prices. Households purchased more margarine instead and industry modified their recipes and used more vegetable oil. **France** is traditionally a net importer of butter, as domestic consumption is high, both for food processing and for direct use by households, and a net exporter of butteroil. French household consumption of butter increased by two percent in the first half of 2009. During the first five months of 2009, **Benelux** butter production increased by about one percent. Supported by export restitutions, Benelux exports are expected to increase during 2009. The production of butter in **Romania** is forecast to increase at an average rate of 11 percent per year, along with intra-EU imports.

Poland, Hungary and Slovakia are the leading suppliers. Butter consumption is expected to be only marginally affected by the economic downturn. **Swedish and Finnish** butter production is

expected to decrease in 2009. Butter production in **Poland** is expected to decline due to lower exports.

2010

EU butter production is forecast to decrease in 2010 as increased milk output will be used mostly for cheese production. Imports are forecast to remain stable due to high intervention stocks. Exports are expected to recover as high level of stocks and continued export refunds scheme would make EU butter more competitive on the world market. The domestic consumption is forecast to increase in response to higher demand. However, further increase of domestic consumption may be limited due to the termination of EU subsidies for the incorporation of butter in bakeries and ice cream, as well as the increased use of vegetable oil as a substitute for butter.

Commodities:

Dairy, Dry Whole Milk Powder

Production:

Country:	EU-27							
Commodity:	Dairy, Whole Dry Milk (1000 MT)							
	2008			2009			2010	
	USDA Official	Post Old	Post New	USDA Official	Post Old	Post New	Post Old	Post New
Calendar Year Begin	01/2008			01/2009			01/2010	
Beginning Stocks	0	0	0	0	0	0		0
Production	860	860	840	775	775	790		810
Extra EU27 Imports	1	1	1	1	1	0		0
TOTAL SUPPLY	861	861	841	776	776	790		810
Extra EU27 Exports	484	484	485	386	386	465		465
Domestic Consumption	377	377	356	390	390	325		345
Other Use, Losses	0	0	0	0	0	0		0
TOTAL Dom. Consumption	377	377	356	390	390	325		345
Ending Stocks	0	0	0	0	0	0		0
TOTAL DISTRIBUTION	861	861	841	776	776	790		810

Source: FAS EU offices

2008

Due to higher world demand, EU-27 production of WDM in 2008 increased from the 2007 level. Growing supplies of milk were processed to WDM as cheese production almost reached its maximum level. The overall level of WDM exports in 2008 grew by 32 percent in comparison to 2007. The Netherlands, France, and Germany were the major producers and suppliers of WDM on the EU market.

2009

WDM production is forecast to decrease in 2009 as milk supplies are expected to be used for higher manufacturing of butter and NFDM. Exports are expected to decline by four percent due to strong competition from New Zealand, but they are expected to remain at the high level.

In **Germany** production of WDM decreased substantially, as it is closely linked with export opportunities and those were very weak. Opposite to the EU trend, **Dutch** WDM production increased during the first five months of 2009. **French** domestic consumption in 2008 was revised down significantly as internal-EU exports were significantly higher than usually, mainly due to very high shipments to Germany.

2010

In 2010, production and domestic consumption of WDM are forecast to recover because of higher milk supplies. Exports are expected to remain at the 2009 level.

Commodities:

Dairy, Milk, Nonfat Dry

Production:

Country:	EU-27							
Commodity:	Dairy, Non Fat Dry Milk (1000 MT)							
	2008			2009			2010	
	USDA Official	Post Old	Post New	USDA Official	Post Old	Post New	Post Old	Post New
Calendar Year Begin	01/2008			01/2009			01/2010	
Beginning Stocks	0	0	0	0	0	0		280
Production	990	990	980	1050	1050	1080		1020
Extra EU27 Imports	8	8	8	5	5	5		5
TOTAL SUPPLY	998	998	988	1055	1055	1085		1305
Extra EU27 Exports	179	179	179	180	180	165		200
Domestic Consumption	819	819	809	750	825	640		720
Other Use, Losses	0	0	0	0	0	0		0
TOTAL Dom. Consumption	819	819	809	750	825	640		720

Ending Stocks	0	0	0	125	50	280		385
TOTAL DISTRIBUTION	998	998	988	1055	1055	1085		1305

Source: FAS EU offices

2008

Production of NFDM was reduced as the profitability of NFDM/butter processing was lower than that of manufacturing cheese and WDM. In 2008, the EC discontinued the support program for the use of NFDM in animal feed which combined with high prices resulted in lower domestic consumption. High prices for NFDM also reduced its use in the bakery industry and stimulated substitution of NFDM by vegetable origin protein. At the beginning of 2008, food processors using milk replacers reduced the use of expensive whey powder and NFDM, substituting it with vegetable components. Total NFDM exports in 2008 decreased by 11 percent in comparison to 2007 because of competition from the United States and Oceania. Towards the end of the year NFDM has been losing competitiveness on the world market and the EC started market support in January 2009. France, Germany, Poland, and the Benelux countries are the major producers of NFDM in the European Union.

2009

Output of NFDM is expected to recover as a result of EC market support introduced in early 2009. Lower demand on domestic and world markets caused by economic crisis and domination of the international market by New Zealand will likely reduce EU exports in 2009. Domestic consumption is expected to drop in 2009 because of lower use by food processing industry and milk replacer manufacturers. This will lead producers to direct NFDM to intervention stocks. In October 2009, intervention stocks of NFDM amounted to 267,768 MT.

2010

Production is forecast to decrease in 2010 due to lower availability of raw milk for NFDM manufacturing. Low prices and high stocks are expected to stimulate domestic consumption and exports. In March 2010, the regular 2010 public intervention period will start for the maximum amount of 109,000 MT at a fixed price. It is forecast that this whole amount will be used resulting in further increase of EU intervention stocks at the end of 2010.

Policy:

European Council awaits EC measures in dairy crisis.

At the Agricultural Council meeting in Luxembourg on October 19, 2009, Commissioner Fischer-Boel proposed an extra Euro 280 million for the dairy sector. In a [press release](#) [1], the European Council of October 19, 2009 announced the adoption of the [proposal for the extension of the intervention buying scheme for butter and Skimmed Milk Powder \(SMP\)](#) [2]. The Council further agreed in principal on the adoption of the [proposal on the extension of the disturbance clause under Article 186 of Council Regulation \(EC\) No 1234/2007 to dairy and to](#)

[change on a voluntary basis the operation of buying-up schemes of milk quotas](#) [3] . This will likely allow distributing the extra ‘emergency’ aid to the EU dairy farmers. The Council mandated the Special Committee on Agriculture to finalize the proposal for final adoption in the November Council meeting. The Council further took note of the [contribution](#) [4] from the 21 Member States, which called for an additional Euro 300 million budget line for a dairy fund in the 2010 European budget. The Council also listened to the [quarterly report on the situation on the dairy market](#) [5] , as well as the outcome of the 13 October meeting of the High Level Expert Group. The Commission has also announced that in October 2009 it will adopt changes to state aid rules to allow Member States to pay farmers up to Euro 15,000 each in national aid before the end of 2010. On October 20, 2009, the European Parliament (EP), after a discussion of the Committee on Agriculture (COMAGRI) with Commissioner Fischer-Boel, to use the fast track procedure to finalize the [EP position](#) [6] on the two new dairy proposals. Under the "consultation" procedure, this EP position paves the way for the formal adoption of the proposals at the November 19-20 Agricultural Council.

The European Commission has been criticized from the Council and farmers for being slow in translating conclusions and suggestions from its July 22, 2009, [dairy market situation report](#) ^[7] , which suggested new dairy support measures like additional dairy promotion, the use of super levy money for funding early retirements, providing additional aid to dairy farmers at EU Member State (MS) level through a temporary increase in *de minimis* aid and under Article 68 for Rural Development aid, as well examining of potential anti-competitive practices in the food supply chain. As EU dairy prices fell, dairy farmer protests strengthened in a push to pressure the EC and the Council to approve emergency aid measures. As a result, some 50 million liters of milk were spread in fields and then thousands of liters more were freely distributed to the public in France and Belgium.

A French-German inspired [note](#) [8] to the Commission on the dairy sector, calling for higher intervention prices and higher export subsidies among other demands, was presented at the Agriculture Council of September 7, 2009, and is now supported by 21 MS (Belgium, Bulgaria, Germany, Estonia, Ireland, France, Latvia, Lithuania, Luxembourg, Hungary, Austria, Portugal, Romania, Slovenia, Slovakia, Finland, Spain, Czech Republic and Poland, with Italy and Greece joining after the October 9 Council). After it was further discussed at the September 13-15, 2009, [Informal Meeting of Agriculture and Fisheries Ministers](#) [9] of the EU in Växjö, Sweden, Commissioner Fischer-Boel presented a [“road-map”](#) [10] to the European Parliament in Strasbourg on September 17, 2009. The principal measures that Fischer-Boel presented to the Parliament included:

The temporary doubling of the State Aid *de minimis* to Euro 15,000 under the Temporary Crisis Framework was backed by Belgium, Germany, and Finland, with Czech Republic and Spain *inter alia* concerned about potential distortions of competition.

The application of Article 186 of the Single Common Market Organization to the dairy sector (allowing the Commission to take temporary action quickly under its own powers during times of market disturbance) prompted mixed reactions.

The concept of buying back quotas into each Member State's reserve and using super levy funds for restructuring was broadly supported although several Member States insisted that such a system should be voluntary. The Commission clarified that the scheme would be funded on a national basis.

There was broad support for the creation of the Expert Working Group to examine medium to long-term issues including contractual relations and price mechanisms. Composition of the Group and specific items to be examined were discussed.

At the Parliament, Fischer-Boel had earlier underlined that these measures complemented those already agreed, namely:

The additional expenditure of around Euro 600 million on market measures over a twelve month period.

70 percent of direct payments being allowed to be paid from October 16 rather than December. Fischer Boel asserted that this represented a significant amount of money – under the 2003 reform an extra Euro 5 billion went into the Single Payment Scheme to compensate for reductions in intervention prices.

Under the 'Health Check' and the Economic Recovery Package, an extra Euro 4.2 billion is available to address 'new challenges' including restructuring the dairy sector.

Rural Development Policy and State Aid possibilities.

Commission sources have confirmed the assertion that the additional Euro 600 million on market measures could not be met without overstepping budget limits. No official data is available to the public to help demonstrate this outcome. (See also GAIN [E49070](#) [11])

The Swedish Presidency of the EU convened an extraordinary informal meeting of Agriculture Ministers on October 5, 2009, which further discussed the dairy situation. The Council launched the High-Level Group (HLG) of experts on milk under the presidency of DGAgri Director-General De Marty (See [press release](#) [12] and GAIN [Extra-ordinary Agricultural Council stays the course in dairy policy Brussels USEU EU-27 10-6-2009](#) [13]). This HLG is comprised of officials from the Member States and the Commission and will reflect on the medium to long-term future of the dairy sector. The Commission [proposal](#) [14] for additional aid for the dairy sector was announced in a [press release](#) [15] on October 9, 2009.

Consequences of the extension of the EU intervention and export subsidies for dairy markets on the Implementation of the Health Check agreement

By September 2009, the EC bought an additional 53,000 MT of butter into intervention, on top of the agreed 30,000 MT at fixed price. Only 64 MT of butter were tendered in early September after closure of the normal intervention period, signaling an improvement in the butter market. At the September 17 Management Committee (Mancom) meeting, no further butter was offered for intervention. Private Storage Aid (PSA) contracts had also been awarded for 135,000 MT, of which only 452 MT after the normal end of August deadline. Numbers from the Mancom showed that 32,000MT of PSA butter had already been re-injected into the market as PSA contracts had expired. Intervention tendering of Skimmed Milk Powder (SMP) amounted to 173,500 MT, on top of the 109,000MT agreed at fixed prices. Also for SMP, interest in intervention selling decreased rapidly to 4,753MT after the end of August deadline.

While it looks like the bridging of intervention to next season's intervention period in January 2010 was more a political signal from the EC that it was willing to support the dairy market, it is clear that the sheer volumes of butter and SMP in storage will overshadow the EU market into 2010 and maybe beyond. Several MS now are thinking about the Health Check and wondering again about trying to create a soft landing for the dairy quota. It is anticipated that this dairy crisis will throw a long shadow on the post-2013 debate on future liberalization of the EU dairy sector.

Dairy and the Doha WTO negotiations

The 2009 dairy crisis highlighted the willingness of EU decision makers to quickly use supply management techniques to respond to changes in the EU dairy market. The use of export subsidies (ES) for EU dairy exports during 2009 have demonstrated will fuel the debate on the need for sensitive product status for EU dairy products. It also casts doubts on the EU's commitments to phase out ES by 2013, beginning in 2010.

Animal disease situation

While Bluetongue disease (BT) further spread through Europe in 2009 (see [map](#) [16]), its impact has subsided as most herds have built antibodies through infection or vaccination. As reported BSE outbreaks numbers continue decreasing, this too is becoming less of a concern; the feed ban on animal protein remains firm. The EU is not facing any serious disease in cattle herds at this moment.

Environmental concerns and climate change

While critics point fingers at animal agriculture for the production of greenhouse gases (GHG), especially methane production from dairy cattle, the EU is weighing its options for agriculture. The EC published a Commission working paper "[The role of European agriculture in climate change mitigation](#) [17] ". This reflection paper for the September 2009 informal Council

meeting in Sweden followed an EC [White Paper](#) [18] presenting an EU framework for adaptation and specific [working documents](#) [19] , [20] , [21] on adaptation of agriculture to climate change. These documents should allow the EC to meet its commitment in [Decision No 406/2009/EC](#) [22] of the European Parliament and of the Council of a reduction in GHG emissions of 10 percent in 2005-2020 for the sectors not covered by the Emissions Trading System. Emissions from agriculture were 462 million tons of CO₂-equivalent of GHG in 2007, or 9.2 percent of total EU-27 emissions (against 11 percent in 1990). Agriculture is the most important source of nitrous oxide (N₂O) and methane (CH₄), which account for around 5 percent and 4.2 percent of total European emissions respectively.

Related reports

E49017	Dairy and Products Semi Annual	2/24/2009
E49056	Update on EU dairy market situation	7/28/2009
E49031	Fisher-Boel refuses to reconsider agreement on soft landing of dairy quota	3/27/2009
FR9024	France responds to dairy crisis-new measures and CAP proposals	9/22/2009
FR9028	The French Milk Price Situation	10/23/2009

These reports can be accessed through website <http://useu.usmission.gov/agri/> or through the FAS website <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>.

[1] http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/agricult/110605.pdf

[2] <http://register.consilium.europa.eu/pdf/en/09/st13/st13399.en09.pdf>

[3] <http://register.consilium.europa.eu/pdf/en/09/st14/st14270.en09.pdf>

[4] <http://register.consilium.europa.eu/pdf/en/09/st14/st14526.en09.pdf>

[5] <http://register.consilium.europa.eu/pdf/en/09/st14/st14477.en09.pdf>

[6] <http://www.europarl.europa.eu/oeil/FindByProcnum.do?lang=en&procnum=CNS/2009/0152>

[7] http://ec.europa.eu/agriculture/markets/milk/report2009/index_en.htm

² <http://register.consilium.europa.eu/pdf/en/09/st13/st13035.en09.pdf>

³ http://www.se2009.eu/en/meetings_news/2009/9/13/informal_meeting_of_agriculture_and_fisheries_ministers

[10]

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1333&format=HTML&aged=0&language=EN&guiLanguage=en>

[11] <http://fasintranetapps->

gain.fas.usda.gov/Recent%20GAIN%20Publications/Informal%20EU%20Agriculture%20Council

[cil%20October%205%20to%20discuss%20dairy_Brussels%20USEU_Belgium%20EU-27_9-25-2009.doc](#)

[12]

[http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1420&type=HTML&aged=0&language=EN&guiLanguage=en](#)

[13] [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Extra-ordinary%20Agricultural%20Council%20stays%20the%20course%20in%20dairy%20policy_Brussels%20USEU_EU-27_10-6-2009.pdf](#)

[14] [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0539:FIN:EN:PDF](#)

[15]

[http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1501&format=HTML&aged=0&language=EN&guiLanguage=en](#)

[16] [http://ec.europa.eu/food/animal/diseases/controlmeasures/bluetongue_restrictedzones-map.jpg](#)

[17] [http://ec.europa.eu/agriculture/climate_change/sec2009_1093_en.pdf](#)

[18] [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0147:FIN:EN:PDF](#)

[19] [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2009:0386:FIN:EN:PDF](#)

[20] [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2009:0387:FIN:EN:PDF](#)

[21] [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2009:0388:FIN:EN:PDF](#)

[22] [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0136:0148:EN:PDF](#)